Japan

Ontario

Foreign Market study

FOREIGN MARKET DEVELOPMENT SECTION
INDUSTRIAL AND MARKETING STUDIES BRANCH
ONTARIO MINISTRY OF INDUSTRY AND TOURISM

FMS-72-21

FOREIGN MARKET STUDY

JAPAN

Prepared by:
Foreign Market Development Section
Industrial and Marketing Studies Branch
Research Services Division
Ministry of Industry and Tourism
Queen's Park, Toronto, Ontario

EHC/BBS.
October, 1972

F O R E W O R D

Export marketing research is a subject of considerable interest to our Ministry, to Ontario manufacturers and to businessmen who may be interested in exports. The Foreign Market Studies which are undertaken by our Section, are written for the use of our Ministry and members of Ontario's foreign trade missions. These studies depict the economic background of the countries that will be visited. For this reason our Foreign Market Studies are, in the first instance, working documents designed for the use of the Ministry and cannot be taken in their entirety as expressing the opinion or position of the Ministry of Industry and Tourism.

Equivalents of metric, Imperial and U.S. units of measure

Metric Units	Imperial and U.S. Equivalents		Imperial and U.S. Units	Metric Equivalents	
Length -					
1 centimetre (cm).....	0.394	inch	1 inch.....	2.540	cm
1 metre (m).....	3.281	feet	1 foot.....	30.480	cm
	1.094	yard	1 yard.....	0.914	m
1 kilometre (km).....	0.621	mile	1 mile.....	1609.344	m
	0.539	int. naut. mile	1 International nautical mile.....	1852.000	m
Area -					
1 square centimetre - cm^2..	0.155	square inch	1 square inch.....	6.451	cm^2
1 square metre - m^2.....	10.764	square feet	1 square foot.....	9.290	dm^2
	1.196	square yard	1 square yard.....	0.836	m^2
1 hectare - ha.....	2.471	acres	1 acre.....	0.405	ha
1 square kilometre - km^2...	0.386	square mile	1 square mile.....	2.589	km^2
Volume -					
1 cubic centimetre - cm^3...	0.061	cubic inch	1 cubic inch.....	16.387	cm^3
1 cubic metre - m^3.....	35.315	cubic feet	1 cubic foot.....	28.317	dm^3
	1.308	cubic yard	1 cubic yard.....	0.765	m^3
Capacity -					
1 litre (L).....	0.879	Imp. quart	1 Imperial British quart.....	1.136	L
	1.057	U.S. liq. quart	1 U.S. liquid quart.....	0.946	L
	0.908	U.S. dry quart	1 U.S. dry quart.....	1.101	L
1 hectolitre (HL).....	21.997	Imp. gallons	1 Imperial gallon.....	4.546	L
	26.417	U.S. gallons	1 U.S. gallon.....	3.785	L
	2.749	Imp. bushels	1 Imperial bushel.....	36.369	L
	2.838	U.S. bushels	1 U.S. bushel.....	35.239	L
Weight or Mass -					
1 kilogramme (kg).....	35.274	av. ounces	1 av. ounce.....	28.349	g
	32.151	troy ounces	1 troy ounce.....	31.103	g
	2.205	av. pounds	1 av. pound.....	453.592	g
			1 centerweight (100 lb.).....	45.359	kg
			1 hundredweight (112 lb.).....	50.802	kg
1 ton -	1.102	short tons	1 short ton.....	0.907	t
	0.984	long tons	1 long ton.....	1.016	t

TABLE OF CONTENTS.

TABLE OF CONTENTS Cont'd.

TABLE OF CONTENTS Cont'd.


CHINA
U.S.S.R.
HOKKAIDO
Wakkanai
Asahigawa
Abashiri
Otaru
Sapporo
Muroran
Kushiro
Hakodate
Pyongyang
SEOUL
KOREA
(Chosen)
SEA OF JAPAN
YELLOW SEA
Aomori
Hachinohe
Akita
Morioka
HONSHU
Sakata
Tsuruoka
Kamaishi
SADO
Yamagata
Niigata
Sendai
Ishinomaki
Takada
Wakamatsu
Fukushima
PUSAN
STRAIT OF KOREA
OKI RETTO
Hamada
Matsue
Yonago
Tottori
Kanazawa
Toyama
Fukui
Takefu
Tsuruga
Nagano
Maebashi
Utsunomiya
Taira
Yamaguchi
Miyoshi
Tsuyama
Hiroshima
Ayabe
Fukuyama
Himeji
Shimonoseki
Yawata
Kokura
Moji
GOTO RETTO
Fukuoka
Nakatsu
Oita
Nagasaki
Kumamoto
INLAND SEA
KYOTO
KOBE
OSAKA
Gifu
Ogaki
NAGOYA
Matsumoto
Takasaki
Kofu
Mito
Okazaki
TOKYO
Matsuyama
Uwajima
Kochi
Wakayama
Shizuoka
Numazu
YOKOHAMA
Tanabe
Hamamatsu
KYUSHU
SHIKOKU
Kagoshima
Miyazaki
Miyakonojō
PACIFIC OCEAN
PHILIPPINE SEA
TANEGA SHIMA
YAKU SHIMA
JAPAN
0 Miles 250
126°
130°
134°
138°
142°
32°
36°
40°

MARKET INDICATORS

		Canada	Japan
1.	Population (1971)	21.8 million	105.0 million
2.	G.N.P. (1971)	$93.0 billion	$255.2 billion
3.	Passenger cars (1971)	6.4 million	18.9 million
	Telephones in use (1971)	9.3 million	23.0 million
	TV sets (1971)	7.3 million	22.0 million
4.	Steel production (1971)	11.9 million tons	88.6 million tons
	Cement production (1971)	8.3 million tons	59.4 million tons
	Electricity production (1971)	215.0 billion kwh	379.0 billion kwh
	Motor vehicle production (1971)	1.4 million	5.8 million
5.	Trade		
	Exports (1971)	$17.8 billion	$24.1 billion
	Imports (1971)	$15.6 billion	$19.7 billion

INTRODUCTION

Japan is the third largest producer of goods and services in the world, and the third most important trade partner of Canada. The country has attained prosperity through hard work, ingenuity and efficient organization. Protection from foreign capital and foreign imports gave shelter to the growth of domestic industry. The high propensity to save and invest has enabled Japan to maintain a rapid rise in productivity.

The "invest, produce and export" attitude has accumulated its side effects which now pose serious problems. With per capita GNP of more than $2,000, the Japanese people are asking for lower food costs, more foreign consumer goods and better living environment.

International pressure is mounting toward Japanese policies on trade and investment. The yen was revalued in December 1971 but Japan's exports and foreign exchange reserves have kept rising at a bewildering speed. Drastic measures are urgently required to correct the imbalances, domestically and internationally.

The new Tanaka Government has adopted measures to restrain exports and encourage imports. Across the board tariff reduction and larger import quotas will make access to the Japanese market less formidable to foreign exporters.

GENERAL INFORMATION

1. Geography and Climate

Japan consists of a chain of islands which forms an arc 1,500 miles in length and 140,000 square miles in area, and which is separated from continental Asia by the Sea of Japan. Over three-quarters of the land area is mountainous, with many volcanic regions and active volcanoes. The four largest islands from north to south are Hokkaido, Honshu (containing Tokyo and Osaka), Shikoku and Kyushu.

Japan is situated in the temperate zone, and has a generally mild climate with four distinct seasons. Climatic patterns range from that of Hokkaido in the north, with seasons quite similar to southern Ontario's, to the sub-tropical climate of Kyushu in the south. High temperatures, abundant rainfall, and long hours of sunshine in most parts of Japan provide an excellent basis for its high-yielding rice culture.

Climatic Patterns in North, Central and Southern Japan 1971-72

	Average Temperature (degrees F)		Precipitation
	January	July	(Inches per year)
Sapporo	25	66	51.5
Tokyo	44	78	65.5
Osaka	45	80	47.7
Kagoshima	50	82	112.2

Source: Monthly Statistics of Japan

2. Human Resources

a) Population

The total population of Japan in 1971 was 105,010,000 99 per cent of which were of Japanese nationality. The density of population in Japan, 750 per square mile, is one of the highest in the world. Japan's population growth has been held to a rate of 1% per year, compared with growth rates of 2% to 3% in most other Asian Countries.

In 1970, more than 73% of Japan's population lived in the urban areas, which comprised 25% of its land area. Between 1945 and 1970, the proportion of rural population and urban population made a complete reversal.

Nearly 20% of Japan's population lives in the 8 largest cities. In the last few years, however, population in these cities has grown at a slower rate than the national average, and has declined in such cities as Tokyo and Osaka.

About one-third of the Japanese population is concentrated in the three largest metropolitan areas (Tokyo, Osaka and Nagoya), which have a combined land area of less than 1% of the total land area of Japan.

Population of the Eight Largest Cities 1968 and 1970.

	1968	1970
	-thousands-	
Tokyo (city proper)	8,997	8,840
Osaka (city proper)	3,071	2,980
Yokohama	2,061	2,238
Nagoya	1,998	2,036
Kyoto	1,412	1,419
Kobe	1,254	1,288
Kitakyushu	1,050	1,042
Sapporo	795	1,010
	20,638	20,853

b. Labour

Japan has a labour force of 51,140,000. Unemployment averaged about one percent between 1960 to 1970. According to government placement records, there were 4.7 million new openings offered by industry against 666,000 new applications submitted by senior high school graduates in 1971.

Employed Persons by Industries 1971

	'000	%
All Industries	51,140	100.0
Agriculture and Forestry	7,680	15.0
Fishery	460	0.9
Mining	190	0.4
Construction	4,130	8.1
Manufacturing	13,810	27.0
Wholesaling, Retailing, Finance, Insurance and Real Estate	11,780	23.1
Transport, Communications and Public Utility	3,610	7.1
Services	7,740	15.1
Government Service	1,670	3.3

Source: Monthly Statistics of Japan.

During the 1960's the absolute number of persons employed in the primary industries sharply diminished and its proportion relative to the number employed in all industries was virtually halved. In contrast, the secondary and the tertiary industries made substantial gains in employment.

Relative Changes in Employment, 1960 and 1970

	1960 %	1970 %
Agriculture, forestry, fishery and mining	33.6	17.8
Manufacturing and construction	26.6	34.8
Service industries	39.8	47.4
Total	100.0	100.0

3. Government

Japan is one of the world's oldest empires. The first Constitution of 1889 was replaced by the Constitution of 1946, promulgated under the chaperonage of the Allied occupation forces.

Under the new constitution, the Emperor is the symbol of national unity without governing power. Legislative power lies with the Diet, comprising the House of Representatives (486 seats) and the House of Councillors (250 seats), both elected by universal suffrage.

Executive power is exercised by the Cabinet, consisting of the Prime Minister and 18 Ministers. The Liberal Democratic Party forms the present government, led by the Prime Minister Kakuei Tanaka. Key portfolios of the Tanaka Government include:

Minister of Foreign Affairs	-	Masayashi Ohira
Minister of Finance	-	Koshiro Ueki
Minister of International Trade and Industry	-	Yasuhiro Nakasone
Minister of Agriculture and Forestry	-	Tokuso Adachi
Director General of Economic Planning Agency	-	Kiichi Arita
Director General of Environment Agency	-	Osanori Koyama

Other major political parties are the Japan Socialist Party and the Komeito (Clean Government Party).

The judicial system is specified to be independent from the executive power. It consists of the Supreme Court, high courts, district courts, family courts and summary courts. The jury system is not in practice in Japan.

The country is divided into 46 prefectures, each electing its governor to head the local government.

STRUCTURE OF THE ECONOMY

1. General

During the 1950's and the 1960's Japan consistently held a high rate of economic growth that astonished the world.

Annual Rate of GNP Growth at Constant Prices.

	1950-60 %	1960-70 %
Japan	9.1	11.3
West Germany	7.9	4.7
France	4.5	5.6
Britain	2.8	2.7
Canada	4.1	4.9
United States	3.2	4.2

Source: O.E.C.D.

The continuous rise in productivity which has sustained the nation's economic growth was fostered by the peculiarly Japanese model of a "guided" free enterprise. A proper mix of paternalistic tradition and modern technology provided an ideal setting for carrying out Japan's industrial strategy. Once policies were laid down, the tripartite alliance of government, business and labour strove to attain the objectives with efficient organization and utmost dedication.

The crux of Japan's industrial strategy is the heavy emphasis on investment. Compared with Western countries, GNP growth in Japan owes much less to consumer spending and far more to investment activities. In 1971 domestic fixed capital formation amounted to 36% of GNP. In comparison, Canada's fixed capital formation was 22% of GNP in 1971.

In this context, the Japanese government has invariably played a key role in fostering and developing modern industries such as electronics, iron and steel, shipbuilding, petrochemicals and computers. Available resources of capital and technology were diverted into these high priority industries and foreign competition was effectively warded off under government guidance and protection. The

concerted efforts have served to elevate Japan's international standing to second largest in the production of goods and services and third largest in exports among the non-communist countries of the world.

	Gross domestic product, 1970	Export 1971
	$ billions	$ billion
United States	969.6	43.5
Japan	231.0	24.1
West Germany	187.6	37.3
France	148.2	20.4
Britain	118.3	23.4
Canada	86.2	17.7

Source: United Nations.

2. Gross National Product

Japan's 1971 GNP was Yen 78,593.4 million, equivalent to $255.2 billion at the new yen rate of 308 to one. The per capita GNP of $2,440 in 1971 showed more than 100% increase over the per capita GNP in 1966.

Gross National Expenditure, 1971.

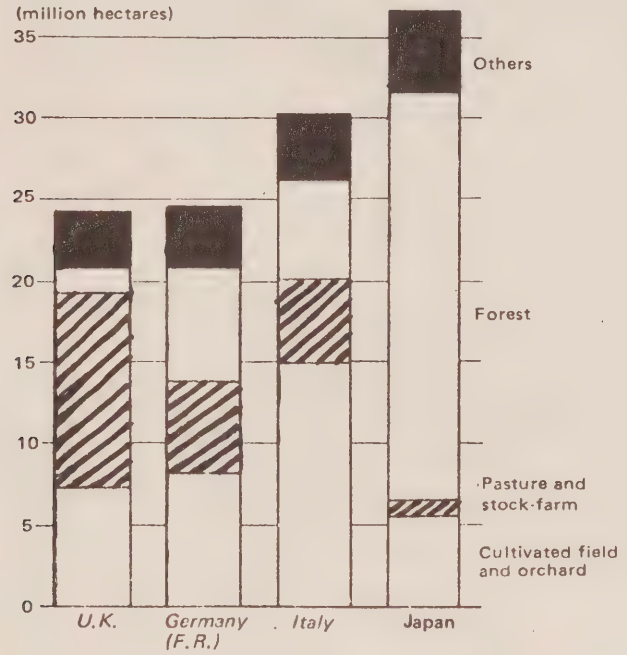
	$billion	Percent
Private consumption expenditure	133.9	52.5
Government consumption expenditure	22.3	8.7
Gross fixed capital formation	88.2	34.6
Inventory increase	3.9	1.5
Receipts from abroad	32.2	12.6
Payments abroad	(-)25.3	(-)9.9
Total	255.2	100.0

3. Agriculture, Forestry and Fishing

a. Agriculture

Because of the mountainous topography only one-sixth of Japan's land area is arable. The average size of a farm is 2.7 acres. There is thus only 0.14 acre of farm land to feed each person in the country, compared to 2.5 acres per person in North America.

Land Utilization, Selected Countries (1965-68)



Source: Japan's Economy 1971.
Ministry of Foreign Affairs

Despite such limitations, Japan is over 80% self-sufficient in its food requirements because of the high productivity in agriculture. However, a continuing decline in the agricultural labour force, and an increasing demand for a high protein diet by Japan's affluent consumers are expected to decrease the country's self-sufficiency in the 1970's. Agriculture and forestry employment in 1971 was 7.7 million or 15.0% of the employed labor force.

Rice, wheat, barley, potatoes and soybeans are Japan's principal food crops. Although yield per acre has been rising for all crops, total production has been declining for all except rice, due to a steady contraction of the growing areas. Rice-growing areas have remained rather steady over the years due to profitable government support juices.

Production of Principal Agricultural Products 1970

	Area (000's hectares)	Production (000's metric tons)
Rice	2,923	12,689
Wheat	229	474
Barley	146	418
Irish Potatoes	159	3,611
Sweet Potatoes	129	2,564
Sugar Beets	54	2,332
Soybeans	96	126

Source: Japan Statistical Yearbook, 1971.

The dietary pattern of the Japanese population has been changing rapidly. Rice is losing its predominant position as Japan's staple food and consumption of wheat, meat, milk, and other dairy products has risen markedly. However, in the average Japanese diet, protein derived from food of animal origin is still about one-fifth as much as in a Canadian diet.

Number of Livestock 1961-1971
-000's-

	1961	1971
Dairy cattle	885	1,856
Other cattle	2,313	1,759
Hogs	2,604	6,904
Sheep	677	26
Goats	520	160
Chickens	67,712	172,226

Source: Japan Statistical Yearbook 1971.

b. Fishing

The main source of protein in the Japanese diet is fish. Japan led the world in fishing for years, until this position was taken over by Peru. There were about 570,000 people

employed in fisheries in 1970. Total freshwater and saltwater catch in 1970 amounted to over 9.3 million metric tons. Fish and fish products are important export commodities from Japan, earning $316 million in 1970.

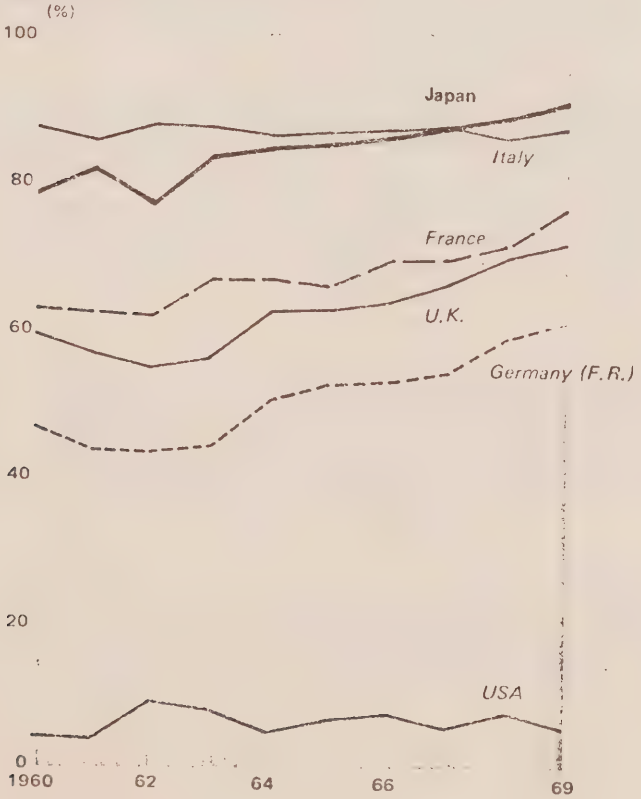
c. Forestry

Two-thirds of Japan's land area is classified as forest. About 40% of this total is coniferous, and about 50% is broad-leaf species. Government ownership covers 42% of total forest area. Japanese forestry industries are well-developed but steadily declining, producing 45 million cubic meters of timber in 1970. Japanese cedar, cypress, pine and fir are the major domestically produced varieties of timber. Domestic demand for forest products far outstrips Japanese production, and in 1970 for the first time imports of lumber almost equalled domestic production. This represents a more than six-fold increase in imports between 1960 and 1970.

4. Mining

Net domestic product from Japan's mining industry has been the smallest among all industry groups; less than 1% in 1970. A glaring example of the discrepancy between industrial demand and the domestic supply of minerals is iron ore. Japan produced about 93.3 million tons of crude steel in 1970, but imported about 100 million tons of iron ore and about 6.7 million tons of steel scrap, while domestic supply of iron ore was only 861,054 tons.

Dependence on Resources Overseas, Selected Countries.



Source: Japan's Economy 1971
Ministry of Foreign Affairs.

By value of output, coal, copper ore, limestone, pyrite, and zinc ore are the most important minerals. Domestic production of natural gas increased by over 200% between 1960 and 1970, while production of crude petroleum increased by 52% in the same period.

Production of Principal Minerals 1968 and 1970
(000's metric tons)

	1968	1970
Coal	46,568	39,694
Copper ore	120	120
Limestone	91,528	116,230
Pyrite ore	2,715	2,640
Iron ore	1,059	862
Manganese ore	312	270
Zinc ore	264	280
Refined sulphur	261	103
Crude petroleum	744	770

Source: Japan Statistical Yearbook 1971.

5. Manufacturing Industry

a. General

During the 10 years between 1960 and 1970, Japan's industrial production nearly quintupled, based on the strength of its rapidly expanding manufacturing industry. The index of industrial production rose from 38.9 to 209 (1965 = 100). In 1970 industrial production rose by 16% and in 1971 by 5%. Japan is the world leader in the production of many important commodities.

By industry, the fastest rise in production value has been observed in such industries as transport equipment, steel, petrochemicals, electrical and non-electrical machinery, and man-made fibres. Even the production of the slowest growing industries such as spinning and fabrics, wood products, and food processing, doubled during the decade.

By groups, the production of capital goods increased nearly 6 times during 1958-68, and consumer goods 3.3 times. On the other hand, the increase in durable consumer goods production was almost eightfold during the 10 years, the largest

gain among all groups. In the 1960's textiles and other light industries declined sharply in importance compared to heavy machinery and chemical industries.

Production of Principal Manufactured Goods
1963-1968-1971

	Unit	1963 '000	1968 '000	1971 '000
Nylon fibres	metric tons	80	215	310
Polyester fibres	"	62	181	400
Cotton fabrics	'000m^2	2,965	2,744	2,482
Polyester fabrics	"	400	1,045	1,731
Pulp	metric tons	4,577	6,861	9,039
Paper	"	3,770	5,491	7,129
Paperboard	"	2,610	4,468	5,778
Cement	"	29,948	47,680	59,434
Ammonium sulphate	"	2,260	2,715	2,189
Urea	"	1,017	2,336	2,478
PVC resins	"	349	933	1,035
Polyethylene	"	223	855	1,340
Polystyrene	"	71	387	695
Synthetic rubber	"	103	381	780
Rubber products	"	308	501	651
Crude steel	"	31,501	66,893	88,557
Copper	"	295	548	714
Lead	"	101	165	215
Aluminum	"	224	481	893
Zinc	"	282	606	718

Production of Principal Manufactured Goods 1963-1968-1971 - Cont'd.

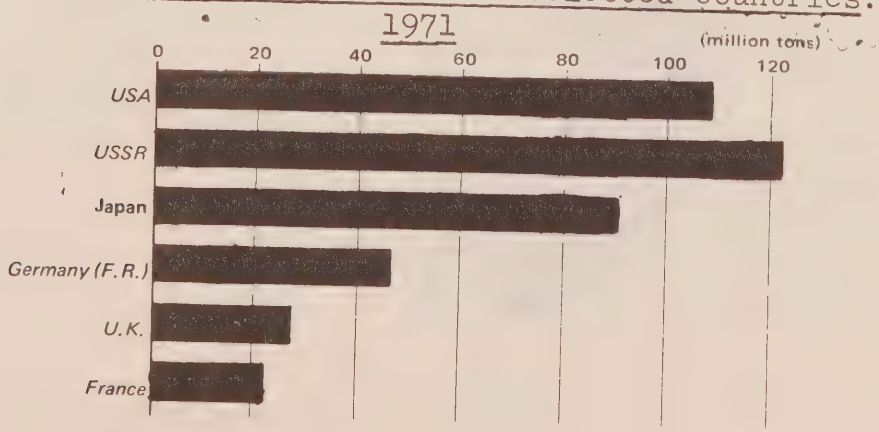
	Unit	1963 '000	1968 '000	1971 '000
Diesel engines	units	215	560	362
Machine tools	"	121	184	184
Generators	"	16	254	232
Electric motors, AC	"	8,469	17,313	21,124
Passenger cars	"	408	2,056	3,718
Trucks	"	861	1,991	2,058
Fort lift trucks	"	9	34	51
Motor cycles	"	1,928	2,242	3,401
Steel vessels	gross tons	2,266	8,481	10,996
Telephones	units	1,194	2,567	4,156
Radios	"	17,063	30,189	28,092
TV sets	"	4,916	9,140	13,231
Washing machines	"	2,664	3,700	4,149
Refrigerators	"	3,421	3,471	3,003
Watches and clocks	"	21,475	35,665	53,534

Source: Monthly Statistics of Japan.

b. Iron and Steel

Wartime bombings destroyed 32 of Japan's 35 blast furnaces and 186 of her 208 open hearth furnaces, reducing steel production to 1 million tons in 1946. However, the prewar peak of 7.65 million tons was surpassed by 1953. Thereafter, through continuous expansions, technical innovations, world-wide search for new ore supply and overseas markets, Japan's steel industry created a new production record every year until it reached 93.3 million tons of crude steel in 1970, the third largest in the world after U.S. and U.S.S.R.

Crude Steel Production - Selected Countries.



Source: U.N. Monthly Bulletin of Statistics. August 1972.

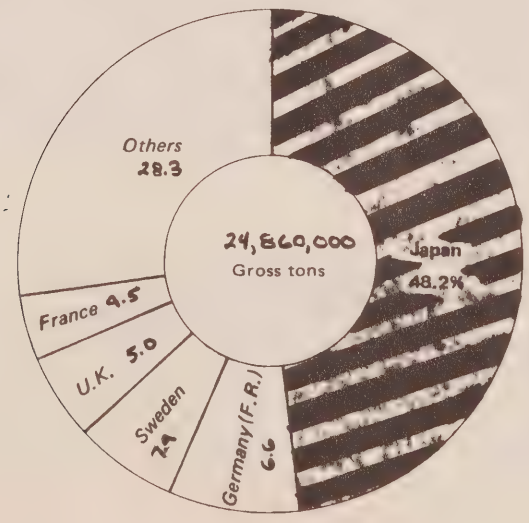
During the period of ambitious expansions, growth was put ahead of profit. In the late 1960's net profit was slightly above 2% of gross sales for the country's major steel companies. Foreign observers agree that Japan's steel industry has entered a new era of profit consciousness. In April 1968, the Nation's two largest steelmakers, Yawata and Fuji applied to the government for a merger which saves $55 million a year for the two companies in the cost of distribution alone. The new company, called Shin Nihon Seitetsu (Japan Iron and Steel) was formed on June 1, 1969, and in 1970 replaced U.S. Steel as the world's largest producer of crude steel with an output of 33.6 million tons.

The outlook for Japan's steel industry is generally considered favourable although the growth rates of the last five or six years will probably not be repeated in the future. Domestic use of steel products will be the main area of expansion.

c. Shipbuilding

Japan has led the world in shipbuilding since 1956. Production of steel vessels in 1971 totalled 10.9 million gross tons, or just under half of the world's total. Japan is also the largest exporter of ships, with about 60% of the tonnage built in Japan going abroad.

Shipbuilding in the World
1971.



Source: Monthly Bulletin of Statistics.
June 1972.

A major trend within the huge Japanese shipbuilding industry has been the increasing number of mergers and various reciprocal agreements between individual companies. Shipbuilders in Japan closely cooperate in sales and marketing activities, joint use of facilities and equipment, and the exchange of technology.

However, the shipbuilding industry is also facing a shortage of skilled labor, and rising wages and other production costs. It will be increasingly difficult to maintain the industry's advantage of short-notice deliveries and competitive prices. Demand for Japanese ships is expected to remain high through 1973 and then decline slightly.

d. Automobiles

The automobile industry is a good example of Japan's all-out efforts to develop a "growth industry" as the pace-setter for the economy. In 1971 Japan turned out 3.7 million passenger cars, 2 million trucks, and 3.4 million motorcycles and three-wheeled trucks. This represents a 40% increase in the production of cars and trucks since 1968. Japanese automobile manufacturing is now second only to that of the U.S. In 1971 exports of automobiles totalled 1.8 million units, a 200% increase over 1968 exports.

The Japanese auto industry has in the past been protected by import quotas and high tariffs on foreign cars, and the complete prohibition of foreign investment in the industry. With Datsun and Toyota topping all other foreign cars in the U.S. market, the argument that the Japanese industry is not yet "strong enough" to stand on its own feet no longer applies. The government is under increasing pressure to further liberalize its restrictions on imports and foreign investment. U.S. automakers have been negotiating with major Japanese producers for joint ventures to produce American vehicles in Japan.

At present, foreign firms may invest up to 50% in Japan's auto manufacturing firms, including the manufacturers of parts. The import ceiling for foreign-made engines was increased from 1,000 units a year to 10,000 - 30,000 units a year starting in 1969. Industry and government officials agree that mergers between automakers should be encouraged and the proliferation of Japanese models reduced to cope with increasing international competition.

e. Aircraft

The servicing of U.S. planes operating in the Korean War gave the Japanese aircraft industry the first significant opportunity to expand after World War II. The first domestically produced post-war commercial aircraft, the YS-11, was put into service in 1962. Development of a successor civilian jetliner was started in conjunction with a U.S. manufacturer, but suspended in 1972. Demand for military aircraft is expected to increasingly support the industry in the future as the national defense program expands. Total value of production of aircraft and parts is now over $325 million a year.

f. Electronic Equipment

Japan ranks second to the U.S. in the manufacture of electronics products. The industry which in the past has exported radios, tape-recorders, TV sets, and other consumer appliances around the world is now switching its emphasis to the production of industrial electronics. Progress in manufacturing computers and integrated circuits is especially noteworthy. Japanese computers are now used in upwards of 70% of all domestic installations, reflecting a phenomenal growth since the mid-1960's, especially in small-sized computers. The value of all electronic machinery and equipment production is already in the area of $11-12 billion a year, a level previously forecast for 1975. Like other Japanese industries, the computer industry—concentrated in the hands of six companies - has grown under government protection, which has taken the form of import restrictions, tariff barriers, and limitations on foreign investment.

Production of Selected Electronic Equipment

	-000's units- 1963	1971
Vacuum tubes	183,622	131,313
Braun tubes	5,798	14,709
Transistors	267,588	1,637,945
Radio receivers	17,063	28,092
Television receivers	4,916	13,231

Source: Monthly Statistics of Japan.

g. Industrial and Electrical Machinery

Heavy industrial machinery has been a leading sector in Japan's economic growth. Heavy capital equipment industries, however, have felt the effects of the recent economic slow-down. Electrical machinery, dominated by the top three companies, Hitachi,

Toshiba and Mitsubishi, has remained strong, primarily because of the increasing demand for household appliances and electric consumer goods. But production has slowed in heavy electrical equipment and in other areas of industrial machinery. Production increases in 1971 (electrical machinery, 2%; non-electrical machinery, 10%; and transport machinery 12%) were all significantly smaller than 1970 increases.

Production of Industrial and Electrical Machinery
-000's units-

	1963	1971
Generators	16	232
Transformers	267	475
AC Motors	8,469	21,124
Machine tools	121	184
Pumps (tons)	50	104
Compressors (tons)	20	54
Industrial instruments	186	1,321

Source: Monthly Statistics of Japan.

h. Chemicals

In the 1960's growth in Japan's chemical industries was exceeded only by the growth in production in steel, metal products and machinery industries. Within the chemicals field petrochemicals have experienced the most growth, especially synthetic rubber, plastics and tar products. High-pressure gases have also been in great demand by the expanding steel industry. Other chemical products like explosives, fertilizers, and detergents have enjoyed only moderate growth in recent years. The variety of chemical products, especially petrochemical derivatives, available to users in Japan and abroad has increased dramatically as production volume has gone up.

Production of Selected Chemical Products
-000's metric tons -

	1963	1971
Polyethylene	223	1,340
Polystyrene	71	695
Polyvinyl chloride resins	349	1,035
Synthetic rubber	103	780
Oxygen gas (000's cubic meters)	1,932	7,794

Source: Monthly Statistics of Japan.

i. Pulp and Paper

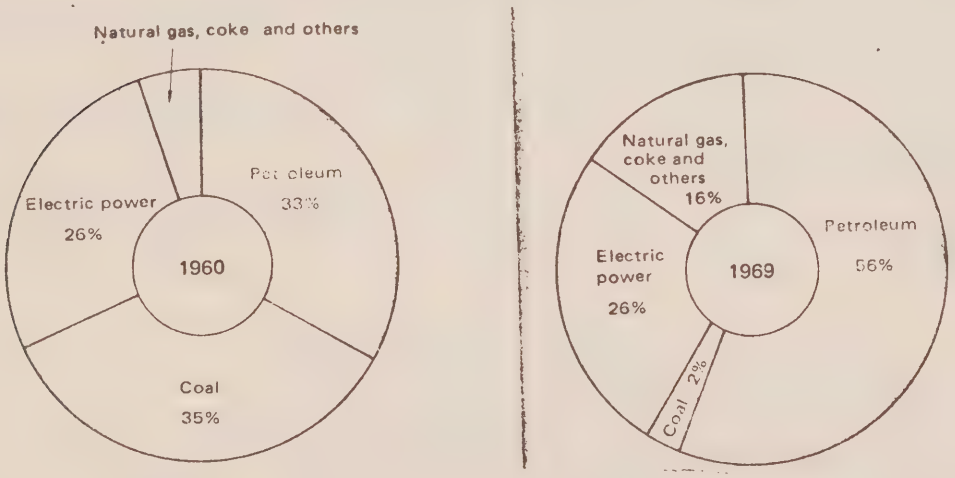
Japan ranks third in the world in pulp and paper production, after the U.S. and Canada. The number of Japanese enterprises is dropping as vertical and horizontal integration is pursued to cope with import liberalization. To ensure a supply of raw materials, Japanese companies are entering into joint ventures in pulp-making in various parts of the world, including western Canada. In 1971, production of pulp was a record 9 million metric tons, and production of paper dropped slightly to 7.1 million tons.

6. Public Utilities

a. Energy

Japan's demand for energy has kept pace with the advance in gross national product. Relatively high-priced energy of domestic origin has been replaced by cheaper imported energy, which now accounts for about three-fourths of Japan's primary energy supply. Coal has also been replaced by petroleum as the economy's major fuel. To secure stable overseas supplies of mineral fuels, Japan has made long term agreements with foreign producers. For example coal from British Columbia, uranium from Ontario, and oil from Indonesia are all important to Japan's present and future energy capacity.

Composition of Energy Demand



Source: Japan's Economy 1971,
Ministry of Foreign Affairs.

Electric power production in 1971 increased by 8% to 379 billion kwh. The electric current is 100/200 volts 50 cycles in Eastern Japan and 60 cycles in Western Japan. Electricity rates are higher than North America but cheaper than in most European countries.

Japan is looking toward atomic energy as a means of lessening dependence on imported fuels. The Japanese Government has joined with private industry in forming the Japan Atomic Power Company, which built Japan's first two atomic energy plants at Tokai Village and at Tsuruga. In addition, the 3 largest electric power companies are developing plans for their own nuclear reactors. Total capacity of atomic power plants will reach 4.9 million kw by 1975 and 30-40 million kw by 1985.

b. Transportation

Japan boasts the world's fastest and most punctual railway service, and her air and sea transport ranks among the world's most highly developed. Construction of new expressways are swiftly changing the picture of highway transportation.

The Japan National Railways operate 12,900 miles of railway, which has hardly increased since 1960, whereas the mileage of national highways increased from 24,937 kms in 1960 to 32,818 kms in 1969. The whole highway expansion plan is geared to the forecast that there will be 35 million motor vehicles on the road by 1985. Motor vehicle registration increased from 3.4 million in 1960 to 18.9 million in 1970.

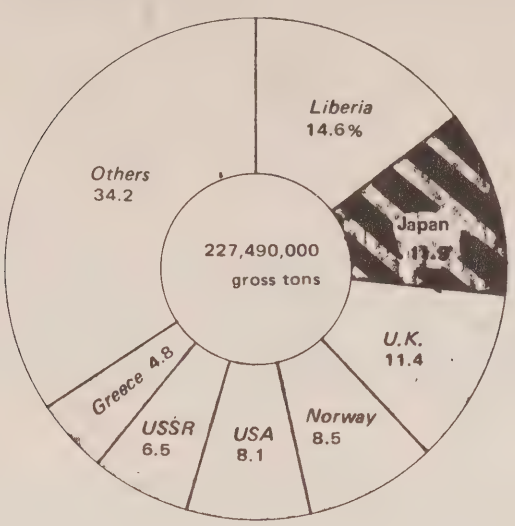
Freight and Passenger Transport 1961 and 1970
- millions -

	1961	1970
Highway transport		
Freight ton-km	26,571	135,916
Passenger-km	65,195	284,228
Railway transport		
Freight ton-km	58,468	63,409
Passenger-km	197,015	288,855
Domestic air transport		
Freight ton-km	7	62
Passenger-km	1,078	9,314

Source: Monthly Statistics of Japan

Japan has developed an excellent system of international seaports to support her trade with the world. In 1970 the ports handled 216 million tons of imports and 16 million tons of exports. Yokohama is the largest port, followed by Kobe, Osaka, Nagoya and Tokyo. About 44% of international cargoes are carried by Japanese ships. Japanese-owned steel merchant vessels number over 13,000 with a total gross weight of about 25 million tons.

Merchant Fleets in the World (1970)

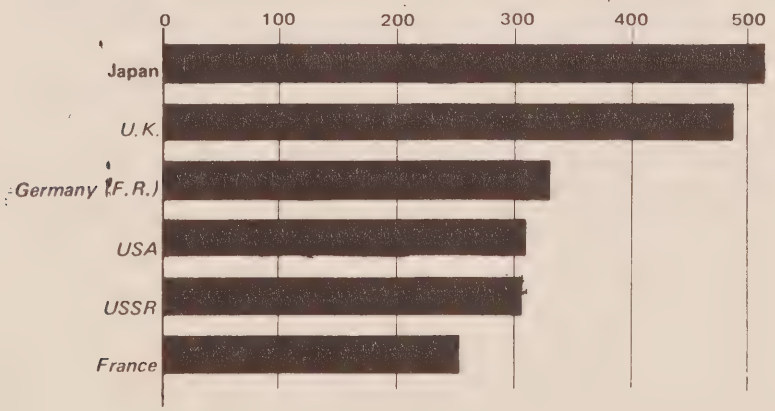


Source: Japan's Economy 1971, Ministry of Foreign Affairs.

c. Communications

As the capacity of Japanese communications networks increases, high speed transmittal and automation are becoming increasingly important. Recent trends include the expansion of TV networks, automation of telephone systems construction of satellite communication equipment, and greater use of telex and data communication facilities. Applications for new telephones still greatly outweigh new installations. Total telephones in use numbered 23 million in 1970. Telephones, telegraph and telex facilities are all operated by a government-owned corporation. NHK, the government-owned television and radio network, competes with several privately-owned television networks. Over 90% of all Japanese households have television. Newspapers are also a major method of public communication.

Circulation of Daily Newspapers, Selected Countries.
(Circulation number per 1,000 persons)



Source: Japan's Economy 1971
Ministry of Foreign Affairs.

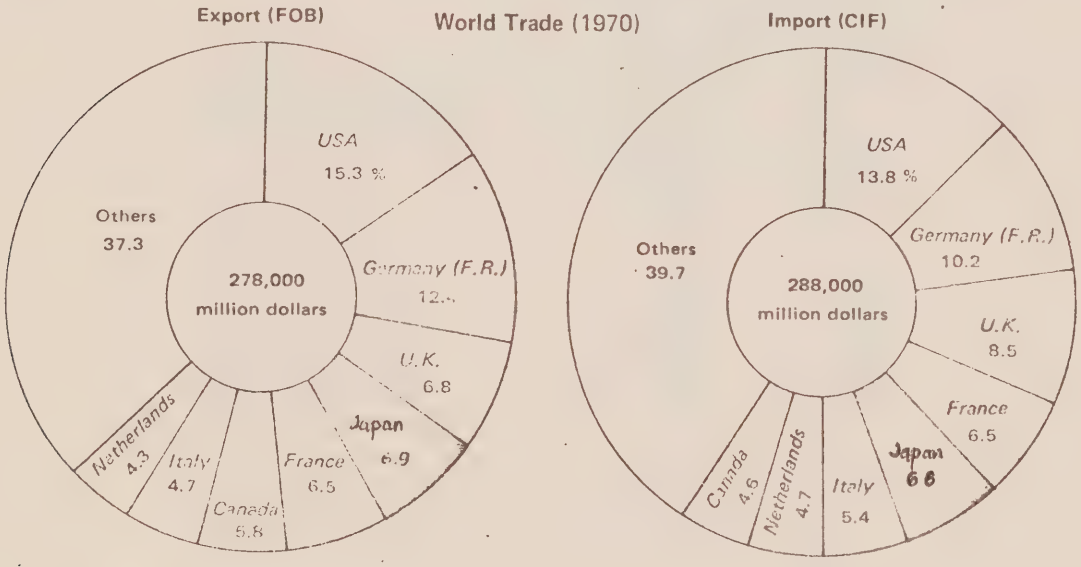
FOREIGN TRADE

1. Trade with the World

With only 0.14 acre per capita in farm land and mineral production accounting for less than 1% of GNP, Japan is poorly endowed in natural resources. Yet an astonishing degree of industrialization has been attained against tremendous odds, by utilizing her human resources to the fullest extent.

In doing so, Japan produced a maximum of exportable goods in order to finance the purchase of raw materials which she needed. During the pre-war years from 1931 to 1940, according to the Economic Planning Agency, Japan's exports and income from overseas accounted for as much as 22% of her gross national product. (The corresponding figure for 1970 was 12%).

After the war, foreign trade became even more vital to Japan as a means of national survival, as the loss of her former overseas territories further deprived her of sources of raw materials. During the past 10 years, Japan's foreign trade more than quadrupled from US$7.0 billion in 1959 to $43.7 billion in 1971 to rank fourth in world trade after U.S., West Germany and Britain.



Japan's Foreign Trade
US $ million

	Exports	Imports	Total Trade
1958	2,877	3,033	5,910
1963	5,452	6,736	12,188
1968	12,971	12,982	25,953
1969	15,990	15,024	31,014
1970	19,318	18,881	38,199
1971	24,018	19,712	43,730

Source: Ministry of Finance, Japan.

Unlike other industrial nations, whose export trade is more than 72% directed to one another, Japan's export goods are sold to developed nations and developing nations in nearly equal proportions.

On the other hand, more than 50% of Japanese imports come from developed countries, and about 40% from developing countries. As a whole, over 40% of Japan's foreign trade is conducted with the world's developing nations, which is an extremely high percentage among industrial nations.

Japan's Foreign Trade by Geographic Areas, 1971

	Exports	Imports
	$ million	
Western Europe	3,423	2,063
Eastern Europe, U.S.S.R. & China	1,148	944
East Asia	3,042	804
S.E. Asia	2,278	2,127
South Asia	442	473
Middle East & North Africa	869	3,027
Other Africa	1,889	895
North America	8,477	5,988
Latin America	1,486	1,333
Oceania	967	2,057
Total	24,019	19,712

Source: Monthly Statistics of Japan

By commodity groups, machinery has replaced textiles and other light industry products as the largest component of Japan's export goods. In parallel to this trend, imports of raw materials for heavy industry have become predominantly important, while those for light industry have become of secondary importance.

Japan's Exports and Imports by Commodity
1971

	Exports	Imports
	$ million	
Food, Bev. & Tobacco	679	2,917
Crude Materials	455	6,400
Mineral Fuels	62	4,751
Manufactured goods	22,633	5,499
Miscellaneous	5	15
Reexports or reimports	185	128
TOTAL	24,019	19,712

2. Japanese Imports

Three Pacific nations, U.S., Australia and Canada supplied 38% of Japan's import needs during 1971, with U.S. alone accounting for over 24%. Of the 10 largest exporting countries which supplied nearly 2/3 of Japanese imports, only the United States and West Germany were significant suppliers of machinery, chemicals and other manufactured goods, the other remaining largely as suppliers of raw materials.

Ten Largest Suppliers to Japan 1971

	US$ Million	%
U.S.	4,855	24.6
Australia	1,703	8.6
Iran	1,326	6.7
Canada	957	4.9
Indonesia	830	4.2
West Germany	592	3.0
Saudi Arabia	578	2.9
Philippines	502	2.6
U.S.S.R.	482	2.5
Britain	406	2.1

Source: Monthly Statistics of Japan

A broad breakdown of Japanese imports by commodity is shown below.

Japanese Imports by Commodity, 1971

		$ million	%
Food and live animals		2,792	13.7
Beverages and tobacco		125	0.6
Crude materials, inedible		6,399	32.5
Metal ores and scrap	2,527		12.8
Textile fibres	958		4.9
Animal and vegetable oils and fats		75	0.4
Mineral fuels		4,751	24.1
Manufactured products		5,499	27.9
Chemicals	999		5.1
Manufactured goods, classified by materials	1,546		7.8
Machinery & transport equipment	2,235		11.3
Other manufactured goods	719		3.7
Miscellaneous transactions		16	0.1
Re-imports		128	0.7
Total		19,718	100.0

The pattern of imports reflects Japan's need for imported raw materials. As Japan's natural resource endowment is not likely to increase dramatically in the foreseeable future, his pattern is expected not only to continue, but to strengthen. The most important items in Japan's imports are mineral fuels, which alone account for 24% of total Japanese imports. Metal ores and scraps, also a major raw material for Japan's heavy industries, is the next most important item, amounting to $2.5 billion and accounting for 12.8% of Japan's imports.

3. Japanese Exports

In comparison with the United States which bought $7.28 billion of Japanese goods in 1971 and accounted for 30% of Japanese exports, the other markets are relatively small but well distributed, indicating the meticulous care Japan has exercised in developing her world markets. Canada became the third largest market for Japan in 1971 purchasing 3.5% of her export goods.

Japan's 10 Largest Markets, 1971

	US $ million	% of total
United States	7,283	30.3
Taiwan	896	3.7
Canada	849	3.5
South Korea	831	3.4
Hong Kong	765	3.2
Australia	697	2.9
West Germany	637	2.7
Britain	555	2.3
Singapore	494	2.1
Indonesia	438	1.8
Total Exports	24,019	

Source: Monthly Statistics of Japan.

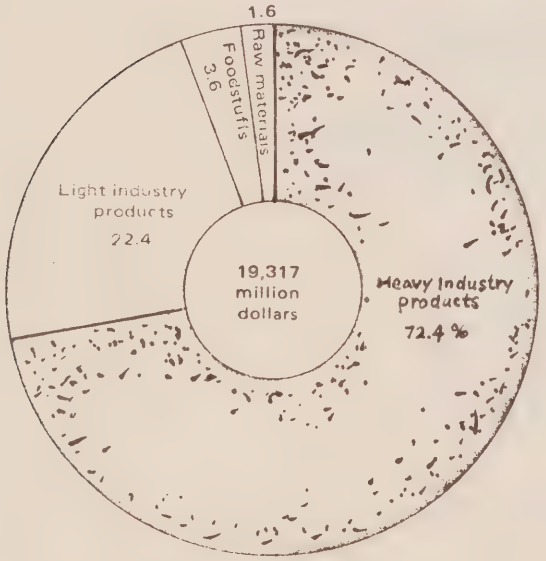
In contrast to the pattern of imports, the composition of Japanese exports is overwhelmingly industrial and finished products. The two patterns together reflect the nation's economic physiology; Japan prospers by exporting the finished products to pay for these raw materials, and as a result of the high value-added, a sizable bulk of the end products, after exporting, remains in Japan for domestic consumption. A breakdown of Japan's exports by commodities is shown in the following tables.

Japanese Exports by Commodity, 1971

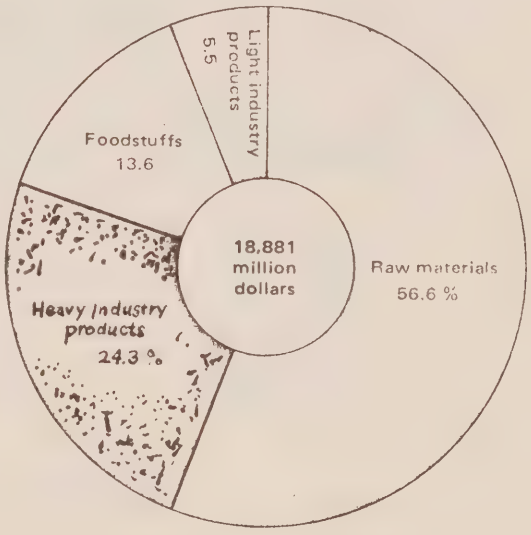
		$ million	%
Food and Live Animals		678	2.8
Beverages and Tobacco		17	-
Crude Materials		455	1.9
Crude materials, inedible	412		1.7
Animal & Vegetable Oils & Fats	43		0.2
Mineral Fuels		62	0.3
Manufactured goods		22,633	94.2
Chemicals	1,486		6.2
Manufactured goods classified by Materials	7,673		32.0
Machinery & Transport Equipment	10,605		44.2
Other Manufactured goods	2,869		11.9
Miscellaneous Transactions		4	-
Re-exports		185	0.8
Total		24,019	100.0

As can be readily seen, the most important group is manufactured goods, which is almost all of Japan's exports: 94.2%. The recent rise in the exports of Japan's electronic appliances, cameras, automobiles and other consumer durables, accounts for the overwhelming importance in the exports of machinery and transport equipment, which accounts for 44.2% of total exports. Of the machinery and transport equipment exports, automobiles amounted to $2293 million, ships and boats $1,793.2 million, cameras and other optical and scientific equipment $556.5 million, and radios $766.7 million. The exports of chemical fertilizers amounted to $152.5 million, and the export of fish and fish preparations was $29.7 million.

Exports by Commodities (1970)



Imports by Commodities (1970)



TRADE WITH CANADA

1. Japan-Canada Trade

Japan is Canada's third largest market after the U.S. and Britain. Canada is the fourth largest supplier to Japan following the U.S., Australia and Iran.

Between 1966 and 1971, Canadian exports to Japan doubled, due primarily to the strong Japanese demand for Canadian cereals, oil seeds, lumber, pulp, iron ore, copper, lead, nickel, zinc, aluminium and other raw materials.

During the same five year period, however, Canadian imports more than tripled on the strength of a general increase in manufactured goods and particularly in automobiles, home appliances and office equipment.

Canada's traditional surplus position in the bilateral trade has continuously been weakened by larger increases in imports than those in exports. In 1971, the trade balance was reversed for the first time in favour of Japan. Canada's adverse balance of trade in the first 8 months of 1972 amounted to $94.6 million and will perhaps exceed $125 million by the end of the year.

Canada-Japan Trade
$'000

	Canadian Exports to Japan	Canadian Imports from Japan
1966	393,892	253,051
1967	572,156	304,768
1968	606,787	360,180
1969	624,795	495,704
1970	795,559	581,715
1971	791,478	801,842

Source: Statistics Canada: Trade of Canada

2. Canadian Exports to Japan

Canadian exports to Japan totalled $789 million in 1971 and accounted for 4.4% of Canada's worldwide exports. Since 1966, the value of exports has doubled. Japan's rank moved up from fourth to third, having overtaken West Germany and rapidly closing the gap with Britain. The rate of increase in Canadian exports to Japan during the period surpassed even that of Canadian exports to the United States.

So far, however, food, feed, raw and fabricated materials predominate in Canadian exports to Japan, constituting over 90% in 1971. A detailed table of Canadian exports to Japan is provided for in the Statistical Supplement.

Canadian Exports to Four Largest Markets, 1958 and 1971

	1958		1971		Increase
	$ million	Rank in	$ million	Rank in	by Times
U.S.	2,827	1	11,808	1	4.2
Britain	774	2	1,346	2	1.7
W. Germany	202	3	314	4	1.6
Japan	105	4	789	3	7.5

Source: Statistics Canada.

Japanese Imports from Canada, 1971.

Description	$ '000
1. Food and other goods for direct consumption	271,556
2. Industrial materials	700,632
3. Capital equipment	14,784
4. Durable consumer goods	10,067
5. Non-durable consumer goods	7,299
Total	1,004,338

Source: MITI

3. Ontario Exports to Japan

Ontario exports to Japan in 1971 exceeded $68.1 million, showing an increase of 56.7% over the exports of 1968. The largest part of the increase came from nickel, zinc, copper, lumber and cereals. However, there has also been a significant increase in the export of high technology products such as metalworking machinery, farm machinery, marine engines, electrical measuring and testing instrument, computer parts and typewriters. Synthetic rubber, sport equipment and hand tools have also shown substantial increases in the Japanese market. These manufactured exports from Ontario in 1971 amounted to $20.4 million, accounting for 30% of the total exports.

Major Ontario manufactured exports to Japan, 1971.*

	$'000
Industrial fabrics	120.5
Organic and Inorganic chemicals	957.7
Plastics and synthetic rubber	2,225.5
Other industrial chemicals	537.1
Engines, turbines and generators	619.7
Metal working machinery	3,536.2
Farm machinery	225.7
Marine engines	2,279.2
Electrical distribution and control equipment	352.1
Measuring and testing instrument	1,939.8
Hand tools	1,899.4
Other industrial machinery and equipment	1,792.8
Sport and recreation equipment	2,847.7
Medical and pharmaceutical supplies	744.0
Other end use products	353.0
Total	20,430.4

4. Japanese Exports to Canada

Leading commodities in Japanese exports to Canada are steel, motor vehicles, clothing, TV and radio sets, tape recorders, woollen and synthetic fabrics, cameras and binoculars.

*See Supplement for details of Ontario Exports to Japan, 1971.

Japanese Exports to Canada, 1971.

	Description	$ million
1.	Food	22,020
2.	Fuel	3,288
3.	Light industry goods	212,520
4.	Chemical and heavy industry goods	638,381
	Total	876,209

*These figures are F.O.B. and may differ from the Canadian figures published by Statistics Canada.

Source: Japanese Ministry of International Trade and Industry

5. Developing the Japanese Market

a) Consumer Goods

As noted in a previous section, the rapid recovery and expansion of the Japanese economy has been made possible by its high rate of capital formation, generally exceeding 30% of gross national product. The sense of national austerity has always motivated the Japanese people to work hard but not to spend as much, in order to bring forth a richer life tomorrow. Wage demands lagged behind the sharp increases in productivity, though the present sharp labor shortage is leading to greater increases in wages. The high rate of savings can be seen from the figures published by the Bank of Japan.

Per Capita Personal Income and Rate of Personal Savings in Japan

	Per Capita Personal Income, C$	Saving as percent of Income
1953	180	10
1958	270	15
1963	470	20

Source: Bank of Japan 'Hundred-year Statistics of the Japanese Economy'.

Frugality was further aided by high tariffs and restrictions on imported goods and the high cost of domestic merchandising due to the inefficient distribution system. However, changes are lately taking place in the Japanese consumer's behaviour. As a full-fledged industrial country, Japan has taken steps to decontrol imports, lower the tariffs and liberalize foreign investments. Foreign made consumer goods are now sold in Japan in larger quantities and at lower prices. Retail and wholesale merchandising has undergone a vigorous process of rationalization, through the advent of supermarkets, discount stores and large scale chain stores.

Food consumption has been shifting toward higher animal protein contents and more packaged and prepared food. Imports of powdered milk, for instance, tripled between 1965 and 1967, and those of cheese more than doubled. In non-food consumer goods, the emphasis is on luxury and sophistication.

In selling consumer goods to the Japanese people, the key is quality, as most of the goods are produced locally, often cheaper than in Canada. Goods which carry Canada's image as a North American nation of good taste and high quality, and a nation experienced in outdoor sports and severe winters, would have advantages in selling among Japan's well-informed and affluent middle and upper classes. Some examples are listed in the following.

Frozen meat (poultry in particular)
"Ready-to-serve" food packages
Honey, maple syrup, etc.
Dairy products.
High fashion clothing
Fur goods, snow coats and snow boots
Folkcraft of stones, wood and ceramics

Camping, skating, hunting and picnicking equipment
Pleasure boats and snowmobiles
Luggage and miscellaneous personal equipment.

b. Producer's Goods

As analysed in the section "Canadian Exports to Japan", over 90% of Canadian exports in 1971 consisted of food and crude and fabricated materials to be used by the Japanese industry.

Wheat, barley, frozen meat and many other food items were also exported in crude forms for processing. This, in contrast to the fact that manufactured products (fabricated materials and end products) constitute at least 70% of Canada's total exports, reflects the bias in our trade with Japan. It should be possible to increase the share of manufactured products in our exports to Japan through more intensive inter-governmental negotiations.

In developing a capital goods market in Japan, Canada faces handicaps in that the Japanese producers favour U.S. sources of supply for technological advantage, wide variety of selection and often lower prices. In this context, for example, Canada's sale of computers and other office equipment to Japan in 1968, worth $75 million and accounting for 40% of all fully manufactured goods, can be considered less a Canadian success in selling capital goods to Japan, than a consequence of the global marketing plans with which the industry operates. The exports of this item in 1971 were down again to under $3 million.

To overcome these handicaps and find solid footings in the $1.3 billion a year Japanese market for machinery and equipment is no doubt a challenge to Canadian manufacturers. Recent U.S. efforts are concentrated in such commodities as food processing and serving equipment, chemical processing equipment, automotive production equipment, automotive diagnostic and service equipment and graphic arts equipment.

The demand for industrial machinery, especially of the labor-saving type, can be expected to increase at a high rate because of the growing labor-shortage and because secondary fabrication is expanding rapidly. Shipments of industrial machinery have been increasing by 21% per annum in recent years, and metal-working equipment expanded by 32% in 1969-70. Yet a large demand exists for imported industrial machinery.

The United States operates a well-staffed and well-equipped Tokyo Trade Centre to promote her exports, apart from normal commercial representation by the Embassy.

ECONOMIC AND TRADE POLICIES

General

For the past two decades, the world has been conditioned to look with surprised and sometimes admiring eyes at Japan's economic achievements. In these early years of the 1970's, however, many nations are wondering aloud how and where Japan can find her place in the harmonious progress of the global community.

Criticism of her self-centered trade and investment policies culminated in 1971 in the imposition of U.S. import surcharges, the creation of DISC's, a U.S.-China detente, and the demands to Japan for revaluating the yen. Self-confident Japan has suddenly discovered herself uncomfortably isolated defending her economic policies on all fronts.

To the bewilderment of policy makers, Japan's international reserves have kept on climbing even after the 16.9% revaluation of the yen in December 1971. Surplus from commodity trade amounted to $6.3 billion during the first 9 months of 1972, and is expected to exceed $9 billion for the entire year.

In order to fight off international pressures for another yen revaluation, the new administration under Prime Minister Tanaka, has adopted measures to quicken the pace of trade liberalization which began during the latter years of the preceding Sato Government.

Conflicting views among the Ministries of Finance, Agriculture, and International Trade and Industry were presented at the special Cabinet meeting on the "Yen expediencies" on October 20, 1972.

Major expediencies approved by the meeting include:

On imports -

1. Across the board 20% tariff reduction on imports of manufactured goods, agricultural products and raw materials.

2. Expansion of import quotas by 30% for those commodities under import controls.

3. Enlarge the function played by the Export-Import Bank in import financing, and reduce its interest rate on import loans by 1 percent.

On Export -

1. MITI (Ministry of International Trade and Industry) will enforce the "Export Controls Ordinance" to regulate the flow of export goods in order to help maintain the market order of the world.

2. Steps will be taken to eliminate direct or indirect forms of export subsidies.

3. The Export-Import Bank will scale down its operations in export financing, and raise its interest rate on export loans by 1 percent.

4. Foreign banks operating in Japan are ordered to suspend their practice of advancing credit to Japanese exporters.

More liberal attitudes towerd foreign capital investments are forthcoming. On the other hand, Japanese investments abroad have virtually shaken off all government restrictions. In the past, nearly 90% of Japanese investments abroad were made in the form of portfolio acquisition and loans. Direct investments in foreign industries accounted for little over 10% of all investments Japan made abroad from 1951 to 1970. With Japan's large foreign exchange reserves and the government's more liberal policies, it is generally regarded that Japan's direct capital investment in foreign countries will show a substantial increase in the not-too-distant future.

Investment

Foreign capital investments in Japan amounted to $344 million in 1968, the latest year for which the Japanese Consulate General of Toronto has the figures. The largest investing country was the U.S. with a total value of $230 million, or about two-thirds of all foreign investments. Britain, Switzerland, and the Netherlands are also major investors in Japan.

In 1968 Canada ranked fourth with $12 million in 23 separate ventures in Japan. Important cases of Canadian investments include those by Alcan in Japan Light Metal Industry Corporation, and by Inco in Shimura Kako. Canada also had 104 cases of technological investments in Japan.

Japan's strict limitations on foreign investment are based on the Foreign Investment Law, which is intended "to create a sound basis for foreign investment in Japan by limiting the induction of foreign investment to that which will contribute to the self-support and sound development of the Japanese economy and to the improvement of the international balance of payments". All investments and technological agreements must be approved by the Japanese government. In the past government approval has been obtained only with considerable trouble and after delays of several months or even years.

The liberalization or relaxation of investment restrictions was established as government policy in 1967. Four succeeding stages of liberalization were set out, to become effective in June 1967, March 1969, September 1970 and August 1971. Central to the liberalization policy is an expansion in the number of industries in which foreign investment on a 50-50 capital basis will be given automatic government approval. The fourth and final round of liberalization succeeded in opening virtually all industries to automatic approval of foreign investments up to 50% of capital, and increasing the number that are open to up to 100% foreign control.

The structure of Japan's investment policy is now centred around four classifications of industry.

1. Foreign investments in existing enterprises are subject to case-by-case screening. If the investment entails less than 50% of total capital approval is automatic if certain condition are met.*

---

* (see following page foot-note)

2. Newly established enterprises - category A. There are seven industries in which new foreign investments are subject to case-by-case screening. They are: primary industry related to agriculture, forestry and fishing, oil refineries and distribution, leather and leather products, manufacturing, sales or leasing of electronic computers, including terminals and accessories, information processing industry, retail trade chains with more than 11 stores, and real estate. If foreign capital is less than 50% of the total approval is automatic if certain conditions are met.*

3. Newly established enterprises - category B. There are 228 industries in which foreign investments are automatically approved even if the foreign share is 100%. See Appendix for list of industries in category B. The fourth round of liberalization added 151 industries to the 77 that previously existed in this category.

4. Newly established enterprises - category C. This contains all other industries not designated in categories A and B. Case-by-case screening is required if the foreign share of investment is between 50% and 100%. Approval is automatic if the foreign share is less than 50% of the total investment.

The computer industry is scheduled to be removed from the restricted list of seven, and transferred to category C after three years. All cases automatically approved in all categories must meet the general requirements that the investment will not "impair the interest of Japan" to an exceptional extent, and in the case of new enterprises, will not be "tantamount to participation in the management of an existing company". This completes the liberalization of Japan's investment policy as outlined in 1967. However further liberalization is expected as foreign countries, particularly the U.S., continue to press for further relaxation. In the future liberalization is likely to take the form of more automatic approvals within the cases that are presented for government scrutiny, and increasing relaxation of the 15% and 25% maximum share allowed in existing companies in certain important sectors. (see note at bottom of page)

---

* The conditions are: 1. Foreign investors' aggregate participation is less than 25%. In the following industries 15% is the maximum allowed for automatic approval: electric power, gas utility, water supply, railways (excluding JNR), air transportation, freight express, road and harbour transportation, banking, fisheries, mining, broadcasting. 2. Each individual foreign investor's participation is less than 10% of the total.

Branch Plants, Joint Ventures and Licensing

Major foreign investments in Japan take the form of the KK (Kabushiki Kaisha, or limited stock corporation), though other forms are allowed under the commercial code. In establishing a local branch or company, there are several things a businessman must be aware of. First, there have been cases in which the use of a certain percentage of domestic materials and components is made a condition for the Japanese government's approval, e.g. 50% minimum local content was the condition for the 100% owned subsidiary of Black and Decker (U.S.). The percentage of local content varies from case to case, and there is no general rule. Secondly, some joint ventures may be obliged to be a member of associations before their establishment is approved. Sometimes, these associations may be export cartels or manufacturers cartels. Third, before setting up branch operations in Japan, foreign firms should notify MITI and the Ministry of Finance of their production and financing plans. Otherwise, the branch may not be able to get the Ministry of Finance's authorization to bring in capital funds. Notification must be made 30 days before the formation of the branch.

The obstacles to direct equity investments have forced many foreigners to undertake licensing. Under the new law of June 1968, the Bank of Japan grants automatic approval within 1 month of application, to licensing arrangements involving up to $50,000 in licensing fee. However, royalty agreements are not automatically approved. Case-by-case screening is required in seven areas: 1) industries related to agriculture, forestry and fisheries; 2) petroleum refining, distribution, and selling; 3) leather and leather products; 4) manufacturing, selling and leasing of electronic computers, including periopheral equipment, parts, accessories, and computer-aided systems; 5) data processing, including computer software; 6) retail trade operations with more than 11 outlets; and 7) real estate business. All other licensing are in principle "liberalized". This means that a verdict is promised within 1 - 3 months of application: one month normally, and three months if another Ministry requires reviewing the case. Ministries would require individual screening if the licensing would: hinder rationalization of the industry, hurt smaller firms; threaten the sales opportunities of equivalent domestic know-how; cause bankruptcies or unemployment; or unreasonably restrict the actions of the licensee.

The foreign licensor should not: restrict licensee in handling competitive products or using competitive technology; require licensee to buy raw materials or parts from him; require licensee to sell only through the licensor; restrict the quality of raw materials, parts

or final products; or impose changes on products that do not use the licensed technology.

Patents and Trademarks

The Government is vigorously protecting trade marks and patents. The activities controlled by the government's Design Centre are unlawful use of the patent in business involving sale, manufacturing, transfer, lease, and importation. A new law was put in effect on January 1, 1971, bringing Japan's patent system in line with the West German and Dutch "deferred examination" schemes. There are three key features: 1) public disclosure of the application for 18 months, 2) a formal examination by request of the applicant within 7 years; if no formal examination is asked for, the application is voided; 3) re-examination can be requested within 30 days of refusal by the Patent Office.

Foreign application for Japanese patents have risen from 11,587 in 1960 to 30,309 in 1970.

Trading Companies

The functions and performance of Japan's "trading companies" have recently attracted increasing attention in North America and Europe as a distinctly Japanese feature, as well as a main driving force behind the country's rapid expansion in foreign trade.

The trading companies are engaged in diversified manufacturing, mining, banking, transportation and other industries, and take part in almost all projects undertaken by Japanese companies in partnership with foreign enterprises - joint ventures at home and abroad and overseas resources development. Recently iron ore, petroleum, natural gas, uranium, and industrial salt have all figured in the trading companies activities in Canada, the U.S., Australia and around the world. Attempts are being made to increase triangular trade and reduce dependence on the U.S. as an export market.

The top 10 companies, led by the Mitsubishi and Mitsui groups, had combined exports of about $5.2 billlion in 1970, or just about 50% of Japan's total exports. They also account for about 62% of Japan's imports. Mitsubishi alone employs more than 10,000 people and has total sales of over $11 billion in foreign and domestic activities.

Many of the largest trading companies each maintain several dozens of branch offices abroad to provide the head office and its affiliated industries with effective contacts with foreign sources of supply and foreign markets. In Canada

their branch offices are usually located in Toronto, Montreal and Vancouver. As these leading companies account for nearly three-quarters of Japan's imports, the operations and capabilities of their well-staffed and well-equipped branch offices, deserve attention from those who are seriously interested in the export of Canadian products to the Japanese market.

APPENDIX

LIST OF INDUSTRIES DESIGNATED IN 4TH CAPITAL LIBERALIZATION

CATEGORY A

* Primary industry related to agriculture, forestry and fisheries
* Oil refineries, distribution or sales
* Leather and leather products manufacturing industry
* Manufacturing, sales or leasing of electronic computers (including peripheral equipments, terminal units, parts and accessories) and computer aided systems
* Information processing industry, incl. computer software industry
* Retail trade operations with more than 11 stores
* Real estate business

CATEGORY B
228 Industries

* Construction contracting business, excl. business of contracting for civil engineering works by general contract, building works by general contract, plumbing, pipeline laying and well-sinking works, steel works, paving works, dredging and reclamation works and machine and equipment installing works by contract
* Vinegar manufacturing industry
* Spices manufacturing industry, excl. curry and curry products
* Single-substance forage manufacturing industry, excl. protein feed of microbial source
* Baking powder and yeast manufacturing industry
* Tea manufacturing industry
* Silk spinning industry
* Rope manufacturing industry
* Fishing-net manufacturing industry
* Knitted laces manufacturing industry
* Bobbin lace type of lace manufacturing industry
* Wadding manufacturing industry
* Coated or water-proof fabrics manufacturing industry
* Felt hat and hat bodies manufacturing industry
* Cloth-made hats and caps manufacturing industry
* Neckties manufacturing industry
* Scarfs and mufflers manufacturing industry
* Handkerchief manufacturing industry
* Bedclothes manufacturing industry
* Canvas goods manufacturing industry
* Textile bags manufacturing industry
* Embroidery industry
* Millwork manufacturing industry
* Manufacturing industry of wooden assembling materials
* Office and store furnishings manufacturing industry
* Manufacturing industry of sunshade for window or door
* Mirror frames and picture frames manufacturing industry
* Dissolving pulp manufacturing industry
* Paper pulp manufacturing industry
* Paper manufacturing industry, excl. tissuepaper and toilet paper
* Paperboard manufacturing industry
* Bookbinding cloth manufacturing industry
* Office paper-products manufacturing industry
* School paper-products manufacturing industry
* Daily use paper-products manufacturing industry
* Large paper sacks manufacturing industry
* Cellophane manufacturing industry
* Ammonium fertilizer manufacturing industry
* Mixed fertilizers, silicate acid fertilizers, magnesium fertilizers and other fertilizers mixture manufacturing industry
* Compressed gas and liquid gas manufacturing industry
* Coal-tar products manufacturing industry
* Printing inks manufacturing industry
* Cleansing, polishing and scouring preparations manufacturing industry
* Candles manufacturing industry
* Natural resins and wood chemical products manufacturing industry
* Grease manufacturing industry
* Coke manufacturing industry
* Bicycle tires and tubes manufacturing industry
* Conveyor belt manufacturing industry
* Rubber coated cloth and its products manufacturing industry
* Mixed compound rubber manufacturing industry
* Manufacturing industry of glass-made materials for processing
* Glass-made containers manufacturing industry, excl. products made of special glass
* Laboratory or medical glass implements manufacturing industry, excl. products made of special glass
* Table or kitchen glassware manufacturing industry, excl. products made of special glass
* Cement products manufacturing industry, excl. products of asbestos cement
* Refractory bricks manufacturing industry
* Artificial aggregate manufacturing industry
* Artificial jewels manufacturing industry
* Rock wool, slag wool and its products manufacturing industry
* Gypsum products manufacturing industry
* Lime manufacturing industry
* Chromium-coated steel sheets and plates, vinyl-coated steel sheets and plates and aluminium-coated steel sheets and plates manufacturing industry
* Iron castings manufacturing industry
* Cast-iron pipes manufacturing industry
* Malleable iron castings manufactuding industry
* Secondary zinc smelting and refiining industry
* Non-ferrous castings manufacturing industry
* Tin cans and other products of coated steel sheets and plates manufacturing industry
* Files manufacturing industry
* Farming implements manufacturing industry
* Plumbers' supplies manufacturing industry
* Prefabricated buildings components manufacturing industry
* Curtain walls manufacturing industry
* Hot galvanizing industry
* Electro-plating industry
* Flexible tubes manufacturing industry
* Lighting apparatus manufacturing industry, not incl. electric lighting apparatus
* Elevators and escalators manufacturing industry
* Sewing machines manufacturing industry excl. industrial sewing machines
* Hand-operated wool knitting machines manufacturing industry
* Pipe processing industry and pipe fittings manufacturing industry
* Molds and dies, their parts and accessories manufacturing industry
* Transformers manufacturing industry
* Switchgears, switchboards and power controlling equipments manufacturing industry
* Wiring devices and supplies manufacturing industry
* Household electric appliances manufacturing industry
* Radio and TV receivers manufatcuring industry
* Electric audio machines and equipment manufacturing industry
* Bicycles and parts manufacturing industry
* Ordinary length measuring tools manufacturing industry
* Balances and scales manufacturing industry
* Thermometers manufacturing industry
* Microscopes, monocular-type telescopes, binocular-type telescopes, magnifiers and opera glasses manufacturing industry
* Photographic cameras and parts and accessories thereof manufacturing industry
* Motion picture equipments and parts and accessories thereof manufacuring industry
* Lenses and prisms for optical apparatus manufacturing industry
* Watches and watchcases manufacturing industry
* Precious metal products manufacturing industry
* Jewelry accessories and their materials processing industry
* Lapidary working industry
* Harmonicas manufacturing industry
* Guitars manufacturing industry
* Dolls manufacturing industry
* Artificial flowers and ornamental feathers manufacturing industry
* Slide fastener manufacturing industry
* Plastic sheets, tubes, bars and joints manufacturing industry
* Plastic flooring mate ials manufactu. ing industry
* Straw or panama hats manufacturing industry
* Brooms and brushes manufacturing industry
* Signboards and the like manufacturing industry
* Processed hair manufacturing industry
* Vacuum flasks manufacturing industry
* Manufactured tobacco and salt retail business
* Money exchange business
* Cable railway business
* Cableway business
* Taxi services for general passengers
* Chartered bus services
* Special cargo transportation services
* Port passenger transportation services
* River transportation services
* Lake transportation services
* Warehousing business
* Forewarding agents
* Marine forwarding brokerage
* Automobile terminal services
* Marine counting business
* Marine metage business
* Marine appraisement business
* Motion picture production industry
* Motion picture distribution industry
* Movie theaters, playhouses and show places
* Services connected with motion picture business
* Athletic ground services
* Golf course services
* Amusement parks
* Bowling alleys
* Golf or baseball batting practice ranges
* Amusement goods renting services
* Parking-place business
* Advertisement agents
* Outdoor advertisement services
* Duplication services
* Commercial merchandise testing business
* Building maintenance services
* Geological survey business, excl. prospecting
* Line handling business
* Tugboat services
* Harbor oriented transport services
* Marine disaster rescue services
* Services incidental to communications
* Dramatic companies, orchestra and dancing companies and miscellaneous theatrical companies
* Intermediary business concerning copyrights
* Hydrographic surveying services
* Labor consultant business
* Marine waste oil disposal services

Notes:

1. The manufacturing, sales or leasing of electronic computers (including peripheral equipments, terminal units, parts and accessories) and electronic computer aided systems will automatically be transferred to "Category A Liberalized Industry" after a lapse of three years.
2. The processed cheese industry is a "Category A Liberalized Industry," only when domestic natural cheese accounts for more than one third of the raw materials used in manufacture.